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Ce rapport est publié en français et en anglais. Si vous préférez l'édition française, veuillez adresser votre demande ainsi: Le secrétaire, Compagnie de Papier Abitibi Ltée, Toronto-Dominion Centre, Toronto 111, Canada.

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Everything we do at Abitibi starts with a tree and that is where our pollution problems begin—the disposal of bark, bark fines, fibres and waste liquors.

Effluent from our mills has no disease bearing germs or anything toxic enough to be a hazard to health. This is in contrast to the nation's greatest pollution factor—inadequate municipal sewage treatment.

Some of your company's mills were built long before adequate control technology existed. These operations require control installations under difficult circumstances. In some cases adequate technology has not yet been proven.

We are working very hard on complex effluent abatement problems and progress is being made. Where bark is a problem it is either recovered and burned or pumped to a disposal area. We now have bark fines recovery processes installed in three mills and plans for installation in two others. Lagoons have been built at four mills, a clarifier installed at another and plans and preliminary engineering completed for clarifier installations at an additional four mills.

Your company is concerned about pollution. We have been for years. This should be evident from the expenditure of $18,000,000 on pollution abatement since 1960.

Abitibi works in close collaboration with government authorities to define the problems, establish objectives and set up practical timetables for attainment of these objectives.

ABITIBI

SEMI-ANNUAL REPORT 1970

Consolidated Statement of Net Earnings

	Six Months Ended June 30 1970	1969
Revenue:		
Net sales	$145,024,598	$142,874,503
Interest and other income	1,047,080	951,419
	146,071,678	143,825,922
Costs and expenses:		
Cost of products sold	115,305,786	108,182,972
Provision for depreciation	7,860,387	7,749,066
Provision for depletion	183,283	611,297
Selling, general and research expenses	11,138,459	10,087,769
Interest on bank indebtedness	486,886	251,726
Interest and expense on long term debt	3,454,755	3,222,608
	138,429,556	130,105,438
Earnings before taxes on income	7,642,122	13,720,484
Taxes on income:		
Current	3,304,000	6,563,000
Deferred	770,500	484,000
	4,074,500	7,047,000
Net earnings from operations	3,567,622	6,673,484
Per common share:	*17.9¢*	*35.3¢*
Deduct: Extraordinary loss on revaluation of the Canadian dollar	455,000	—
Net earnings for the period	$ 3,112,622	$ 6,673,484
Per common share:	*15.3¢*	*35.3¢*

Note:

On the last day of May the Canadian dollar was set free from exchange controls to find a new and higher value in relation to other currencies. At that date the working capital of Abitibi Paper Company Ltd. and its Canadian subsidiaries included substantial net balances receivable in U.S. and other currencies. The adjustment of such balances to the actual or estimated yield following revaluation of the Canadian dollar results in an after-tax loss of $455,000 as shown in the above statement.

In the preparation of our consolidated financial accounts we translate the working capital of U.S. subsidiary companies to Canadian dollars at the current rate of exchange and, under this practice, there is an unrealized exchange loss of $448,000 as at June 30, 1970. This adjustment has been deferred pending a clearer indication of the future relationship between the Canadian and U.S. dollars. On the other hand, long term debt payable in U.S. funds is expressed in our consolidated accounts at the exchange rate in effect when the debt was incurred which is higher than the current rate of exchange.

Consolidated Statement of Source and Application of Funds

	Six Months Ended June 30 1970	1969
Source of Funds:		
Net earnings from operations	$ 3,567,622	$ 6,673,484
Non-cash charges deducted in arriving at net earnings:		
Depreciation and depletion	8,043,670	8,360,363
Deferred taxes on income	770,500	484,000
Discount and expense on long term debt	38,546	34,621
Funds derived from operations	12,420,338	15,552,468
Increase in long term debt	18,851,438	5,924,230
Disposal of capital assets	61,484	1,067,470
Decrease in miscellaneous investments	975,098	—
Other items—net	—	74,339
	32,308,358	22,618,507
Application of Funds:		
Invested in capital assets	10,360,555	11,858,306
Retirement of long term debt	1,871,016	1,228,153
Extraordinary loss on revaluation of the Canadian dollar	455,000	—
Dividends declared on preferred shares (including dividend payable September 1)	562,500	562,500
Dividends declared on common shares	3,217,390	3,214,870
Other items—net	127,269	—
	16,593,730	16,863,829
Increase in working capital	15,714,628	5,754,678
Working capital at beginning of year	64,504,767	61,685,073
Working Capital at June 30th	$ 80,219,395	$ 67,439,751

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ABITIBI

ABITIBI PAPER COMPANY LTD.

Head Office: Toronto-Dominion Centre, Toronto 111, Canada

To the Shareholders: Toronto, July 23, 1970.

Net sales for the six months to June 30, 1970 are $145,025,000, an increase of $2,150,000 or 1.5% in comparison with 1969. However, net sales in the last three months are slightly below last year because of the slowdown in business activity that has occurred in the Canadian and United States economies.

Newsprint consumption in North America is below that of last year and shipments to this important market by Abitibi and the Canadian industry are down slightly in comparison with 1969. While fine paper shipments are somewhat higher, earnings are reduced by a combination of sharply increased production costs and lower average selling prices. Work stoppages in the Canadian Post Office are the cause of reduced postal volume with an accompanying reduction in paper usage. Operations of our board products group are affected, of course, by difficult conditions in the building trades, particularly in residential construction.

Net earnings from operations are $3,567,622 or 17.9¢ per common share. They are reduced by an after-tax loss of $455,000 on the realization of net accounts receivable in U.S. and other foreign currencies as a consequence of the revaluation of the Canadian dollar at the close of May. After taking up this loss, net earnings are $3,112,622 or 15.3¢ per common share. Net earnings for the same period in 1969 were $6,673,484 or 35.3¢ per common share.

During the period since the end of May, when the Canadian dollar was set free from exchange controls, it has had a higher value in terms of U.S. and other currencies. Unfortunately, it comes at a time of weak markets for all of our products. The effect on export industries is to reduce Canadian dollar proceeds on sales made in U.S. and other currencies. A continuing lower premium on the conversion of U.S. funds will reduce Abitibi's net earnings by an estimated $500,000 per annum for each full point reduction from the exchange premium of about 7¼% that prevailed in the first five months of 1970.

Diamond drilling and other exploration is continuing under terms of the agreement entered into with Mattagami Lake Mines Limited covering a 36 square mile block of land owned by Abitibi in northwestern Ontario. An orebody has been outlined with ore reserves calculated to date totalling 12,400,000 tons averaging .0070 oz. gold, 3.04 oz. silver per ton and 7.6% zinc, .91% copper and .82% lead. Ownership of this orebody is to be transferred to a company to be owned 60% by Mattagami and 40% by Abitibi. Preliminary estimates indicate that an investment of $36,000,000 is required to establish a profitable open pit mining and milling operation to produce zinc, copper and lead concentrates. Plans are under discussion for production at the rate of 3,000 tons per day with a start-up as early as possible in 1972. This start-up will have an important bearing on Abitibi earnings as the tax-free period for new mines remains effective until the end of 1973.

Indications are that for the remainder of the year, we will face a continuation of today's difficult and uncertain business conditions. In view of this outlook, we are following a program of austerity in all of our operations. Capital expenditures are being curtailed until conditions improve substantially.

The financial statements in this report have not been examined by the company's auditors and are subject to year-end adjustments.

On behalf of the Board,

T. J. Bell

President